FX A

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✓ :This document represents post-publish procedures performed by the GDC. They compared and agreed all numbers and words from the filed Form 10K from the SEC website to the tied out version of the Form 10K found within the 4.6.2.10 Series.

TML

✓✓::Agreed the Date, number of shares and par value to the file titled "AMR-2018-10-K_Clean Draft to Board_v3" provided by the engagement team.

F: Footed

LOF-#:List of findings

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Comparison: Nuance Power PDF Advanced (Nuance) version 2.1 was used by the GDC to assist with the comparison procedures. This tool is a software audit tool (SAT) on the KPMG US Approved SAT List (US SAT List). Firm guidance indicates that this tool should be included on your SAT Engagement Profile. If Nuance is not included on your SAT Engagement Profile and your eAudIT file is already closed, we have been informed you may include this deliverable transmittal as evidence of your acknowledgment that Nuance was used to support your audit instead of re-opening the file to modify your SAT Engagement Profile.

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-38040

ALTA MESA RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**81-4433840**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
15021 Katy Freeway, Suite 400, Houston, Texas	**77094**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: 281-530-0991

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value $0.0001 per share	AMR	The NASDAQ Capital Market
Warrants to purchase one share of Class A Common Stock	AMRWW	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

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cash settlements paid for derivatives. Our Alta Mesa RBL generally has minimum and maximum hedging limits as further described elsewhere.

Impairments

In late fourth quarter of 2018, the combination of depressed prevailing oil and gas prices, changes to assumed spacing in conjunction with evolving views on the viability of multiple benches and reduced individual well expectations resulted in impairment charges of $2.0 billion to our proved and unproved oil and gas properties. Individual well expectations were impacted by reductions in estimated reserve recovery of original oil and gas in place. At the time of the Business Combination, we believed that the stratigraphy underlying our acreage was conducive to development of three distinct benches within the broader Mississippian section. Proved reserve assumptions at the time of the Business Combination were based on initial wells drilled in the STACK, stated expectations from other operators in the STACK as well as analogous results from other resource plays. These proved reserve assumptions included spacing of four wells per section and probable and possible resource assumptions included an incremental three wells per section for a total of seven wells per section. An incremental five wells per section (for a total of 12 wells per section) were classified as contingent resources to which no value was assigned in the purchase price allocation for the Business Combination. We expected all proved and unproved wells to deliver similar results of approximately 250 Mbbl of reserve recovery. Our 2018 drilling program was executed under these assumptions and by early 2019, we had 17 different sectional development patterns with six to ten wells per section and meaningful production results. The pattern wells generally produced as expected for the initial 60 days but began to fall below type curve after 90-120 days, which we believe was due to interference associated with the current spacing and benches. Our analysis of these results led to the following individual well reserve recovery and the overall spacing assumptions (all arrived at prior to the de-recognition of PUDs more fully described elsewhere):

- No distinct benches exist within the Mississippian section that are not in direct communication with each other resulting in only four to five wells per section that we believe should be spaced horizontally 1,000 feet or more apart;
- Year-end PUD type curves for future development are estimated to have reserves of 175 Mbbl per well, down from the 250 Mbbl at the time of the Business Combination;
- Year-end proved reserve spacing per section is assumed at four or five wells per section which is roughly equivalent to the assumptions at the time of the Business Combination;
- Year-end probable and possible resource individual well recovery was assessed to be 200 Mbbl compared to 250 Mbbl at the time of the Business Combination;
- Year-end probable and possible resource spacing assumes no additional wells per section on fully developed proved sections; and
- No incremental recovery expected from contingent resources.

In May 2018, a subsidiary of KFM entered into agreements with a third party to jointly construct and operate a new crude oil pipeline via creation of Cimarron that we accounted for under the equity method. Cimarron's proposed pipeline was to extend from our processing plant to Cushing, Oklahoma and was to be constructed and operated by Cimarron, which we determined was controlled by the non-KFM owner.

As the outlook for Alta Mesa volumes and third-party volume opportunities in the area were significantly lower than initially projected, we suspended future contributions to Cimarron and have begun discussions to abandon the project. We do not believe the project will be completed and we conducted an impairment analysis resulting in the recognition of an impairment charge of $16.0 million during the Successor Period to reduce the carrying value of our investment in Cimarron to its estimated fair value at December 31, 2018.

Based on an estimation of the fair value of KFM utilizing an income approach that took into consideration the outlook for Alta Mesa and third-party volumes available for processing, we determined that a portion of the value of KFM's plant and equipment and all of KFM's intangible assets and goodwill were impaired at December 31, 2018.

The summary of impairment expense follows:

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Operating Expenses

(in thousands, except per unit data)	Successor February 9, 2018 Through December 31, 2018	Predecessor January 1, 2018 Through February 8, 2018	Predecessor Year Ended December 31, 2017
Operating expenses:			
Lease operating	$ 60,547	$ 4,408	$ 43,953
Transportation and marketing	50,038	3,725	29,460
Production taxes	16,865	953	5,494
Workovers	5,563	423	4,255
Exploration	34,085	7,003	13,563
Depreciation, depletion and amortization	133,554	11,670	89,115
Impairment of assets	2,033,712	—	1,188
General and administrative	114,735	21,234	55,671
Total Upstream operating expense	$ 2,449,099	$ 49,416	$ 242,699
Select operating expenses per BOE:			
Lease operating	$ 5.97	$ 4.82	$ 5.85
Transportation and marketing	4.93	4.08	3.92
Production taxes	1.66	1.04	0.73
Workovers	0.55	0.46	0.57
Depreciation, depletion and amortization	13.17	12.77	11.86

Lease operating expense for the Successor Period and the 2018 Predecessor Period increased compared to 2017, primarily due to cost associated with increased use of submersible pumps for artificial lift, and increased costs associated with our produced water disposal assets (prior to their sale to KFM) and additional wells drilled.

Transportation and marketing expense in the Predecessor Periods represents throughput for our properties in the STACK at the KFM processing facility. Transportation and marketing expense in the Successor Period and the 2018 Predecessor Period increased compared to the year ended December 31, 2017, primarily due to higher volumes flowing from our operated wells into the KFM plant. The fee we pay per unit reflects the firm processing capacity at the plant, as well as firm transport for our residue gas at the tailgate of the plant.

Production taxes for the Successor Period and 2018 Predecessor Period are higher as compared to 2017 primarily due to the increase in oil and natural gas liquids revenue and an increase in the Oklahoma severance tax rate from 2% to 5%, effective in the third quarter of 2018, for wells in their first 3 years of production. Production taxes are assessed based on revenues on a pre-hedge basis.

(in thousands)	Successor February 9, 2018 Through December 31, 2018	Predecessor January 1, 2018 Through February 8, 2018	Predecessor Year Ended December 31, 2017
Exploration expense:			
Geological and geophysical costs	$ 6,755	$ 2,440	$ 5,729
Exploratory dry hole expense	1,954	—	—
Other exploration expense, including expired leases	24,374	4,504	7,797
ARO settlements in excess of recorded liabilities	1,002	59	37
Total exploration expense	$ 34,085	$ 7,003	$ 13,563

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